

# Singapore Company Update

## Q & M Dental Group

Bloomberg: QNM SP | Reuters: QMDT.SI

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

26 Nov 2021

### BUY

Last Traded Price (25 Nov 2021): S\$0.605 (STI : 3,221.52)  
Price Target 12-mth: S\$0.80 (32% upside) (Prev S\$0.84)

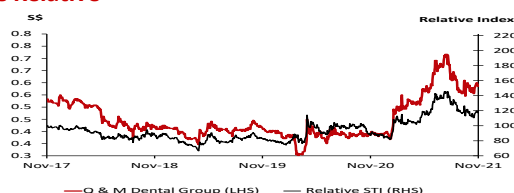
#### Analyst

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#### What's New

- FY21F/FY22F earnings revised down by 5.3%/6.7%; a 30.5% EPS CAGR over FY20-23F
- Reopening of borders a risk but we still expect a solid earnings growth trajectory for core dental business
- Acumen Diagnostics to continue PCR testing for COVID-19, despite some pressure, but a pivot to ART test kits could provide upside
- Maintain BUY with lower TP of S\$0.80

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2020A	2021F	2022F	2023F
Revenue	138	210	220	235
EBITDA	29.4	59.0	61.7	65.8
Pre-tax Profit	22.4	54.0	52.2	56.0
Net Profit	19.7	38.2	39.9	43.8
Net Pft (Pre Ex.)	19.5	33.6	39.6	43.6
Net Pft Gth (Pre-ex) (%)	116.9	72.9	17.9	9.9
EPS (S cts)	2.04	3.95	4.13	4.54
EPS Pre Ex. (S cts)	2.01	3.48	4.10	4.51
EPS Gth Pre Ex (%)	117	73	18	10
Diluted EPS (S cts)	2.01	3.48	4.10	4.51
Net DPS (S cts)	2.30	3.67	4.00	4.00
BV Per Share (S cts)	12.5	12.8	13.0	13.5
PE (X)	29.7	15.3	14.7	13.3
PE Pre Ex. (X)	30.0	17.4	14.7	13.4
P/Cash Flow (X)	22.6	21.1	11.5	10.9
EV/EBITDA (X)	21.0	10.5	10.1	9.4
Net Div Yield (%)	3.8	6.1	6.6	6.6
P/Book Value (X)	4.8	4.7	4.7	4.5
Net Debt/Equity (X)	0.2	0.2	0.1	0.1
ROAE (%)	16.2	31.2	32.0	34.3
Earnings Rev (%):		(5)	(7)	(8)
Consensus EPS (S cts):		3.5	3.7	3.9
Other Broker Recs:		B: 6	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Strong growth momentum in core dental business

#### Investment Thesis:

Maintain BUY with lower TP of S\$0.80, implying potential upside of 32%. We lower our FY21F/FY22F earnings forecasts for Q & M by 5.3%/6.7% as we cut our COVID-19 PCR testing projections; the EPS CAGR over FY20-23F stands at 30.5%. FY21F valuations remain undemanding at 15x PE (c. 1 SD below five-year average) with an attractive yield of 6.1%, as Q & M has continued to pay a quarterly dividend of 1 Sct even after the bonus issue.

**Focus on Q & M's core competency.** We continue to like Q & M's dental business and expect a solid earnings growth trajectory, as it is on track to meet our projection of 20 new clinics a year. We think that demand for Q & M's dental services is unlikely to drop significantly even as borders reopen, as the inconvenience of travelling, i.e., the need to test at the borders, additional costs of testing, and fear of contracting the virus overseas is likely a deterrent for many.

Acumen could see PCR testing demand for COVID-19 ease but they are already planning for a pivot to ART test kits, which could provide upside to our forecasts. There is a shift towards ART in Singapore, as it is not only cost-effective and readily available, but also very sensitive to the highly transmissible Delta variant. Selling ART kits is a potential opportunity for Acumen since they have done so before and no new machinery is needed. We see upsides to our forecasts with this pivot to ART test kits, which will see huge volumes.

#### Valuation:

Maintain BUY with lower TP of S\$0.80 based on sum-of-parts valuation: 1) core dental business at 25x FY22F earnings (S\$0.69 per share), 2) subsidiary Aoxin Q & M at market value (S\$0.04), and 3) Acumen Diagnostics business at 5x (S\$0.06).

#### Where we differ:

We are slightly more optimistic on Q & M on the back of a strong earnings trajectory for its core dental business.

#### Key Risks to Our View:

Reopening of borders and execution risks.

#### At A Glance

Issued Capital (m shrs)	941
Mkt. Cap (S\$m/US\$m)	569 / 416
Major Shareholders (%)	
Quan Min Holdings Pte Ltd	52.7
Heritas Helios Investments Pte Ltd	6.9
Free Float (%)	40.4
3m Avg. Daily Val (US\$m)	1.6
GIC Industry : Health Care / Health Care Equipment & Services	



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**WHAT'S NEW****Post-3Q21 results thoughts****Core dental business**

**Firm 3Q21 results from dental and medical clinics on top of high base effect.** Q & M's 3Q21 revenue from dental and medical clinics came in strong at S\$39.3m, which was 5% growth y-o-y from S\$37.3m in 3Q20, despite the high base effect due to travel restrictions and pent-up demand from the lockdown in 2020. There are now c.40,000 dental patient visits per month compared to c.30,000 per month pre-COVID-19, and the team of dentists has grown swiftly from 230 in Apr 2021 to 270 in Nov 2021. Management guided that it has signed tenancy agreements for 17 new clinics in Singapore and 6 in Malaysia this year. Although the signing of a tenancy agreement does not necessarily guarantee the successful opening of a new clinic, we believe Q & M is on track for our projection of adding 15 new clinics in Singapore and 5 in Malaysia in 2021.

**We do see the reopening of borders as a risk to look out for.** Dental treatments in places like Johor Bahru and Bangkok were popular with Singaporeans pre-COVID-19 due to accessibility and affordability. As vaccination rates rise and travel restrictions lift, patients would no longer be limited to dental treatments in Singapore. Hence, we have projected slightly lower revenue per clinic previously to account for this and will keep to these projections for now. However, we think that demand for Q & M's dental services is unlikely to drop significantly as the inconvenience of travelling to these neighbouring countries, i.e., the need to test at the borders, additional costs of testing, and fear of contracting the virus overseas is likely a deterrent for many.

**Focus on Q & M's core competency.** We continue to like its strong dental business and expect a solid earnings growth trajectory. Our projected 20 new clinics a year in Singapore and Malaysia from FY21 should start contributing to the bottom line from FY22 onwards, as it takes time for new clinics to break even and ramp up. Management is aiming for double-digit growth for the core dental business every year.

**Acumen Diagnostics business****Shift towards Antigen Rapid Test (ART) in Singapore.**

According to the Ministry of Health (MOH), the polymerase chain reaction (PCR) tests will now be conducted mainly for people who are unwell and have COVID-19 symptoms, as well as pre-departure and on-arrival testing. Previously, PCR tests were also used for rostered routine testing (RRT) for workers in higher risk settings such as our borders, the Construction, Marine, and Process (CMP) sectors, as well as those living in high-density environments such as dorms. Instead, ART will now be used more extensively going forward – for RRT, pre-event testing (PET), work in office, close contacts of COVID-19 cases, and community testing – as it is cost-effective and readily available. This shift towards ART will aid testing in becoming a new norm and a new way of life.

**Acumen to continue PCR testing for COVID-19 despite some pressure but will also pivot to PCR testing for other areas.** Although daily COVID-19 PCR testing numbers have come down, Acumen is maintaining its daily maximum capacity and full manpower force to cater to any additional needs from MOH as well as to start conducting other tests. Acumen, as a fully licensed laboratory, will also be able to use their gold standard PCR technology in disease areas such as sepsis and cancer. Management shared that Acumen Diagnostics will be moving towards becoming a medical technology company instead of solely testing for COVID-19.

**ART kits a potential venture for Acumen, which could provide upside to our forecasts.** The Delta variant is highly transmissible and more easily picked up by the ART kit compared to previous variants. Hence, we expect the frequency of ART to increase further as we reopen domestically given the high sensitivity of the ART kit to the Delta variant. Selling ART kits is a potential opportunity for Acumen alongside continued PCR testing since they have done so before and no new machinery is needed. However, we will wait for more concrete plans and execution before factoring this into our projections. There are currently a total of 9 approved ART kits in Singapore (as of 15 Nov 2021), with 2 other ART kits approved to undergo the Pandemic Special Access Route (PSAR) registration. We see upsides to our forecasts with this pivot to ART test kits, which will see huge volumes.

We revise our PCR projections down slightly, in view of the healthcare protocol pivot from PCR to ART. The number of daily lab tests by Q & M is kept stable at 2,750 over FY21F-FY23F, as we think that the increase in pre-departure tests as travel recovers will make up for the decrease in PCR tests for asymptomatic cases. Prices have been adjusted downwards slightly to account for some pooling (several COVID-19 samples tested at one time to reduce cost) and lower demand.

**Prev estimates:**

	FY21F	FY22F
No. of daily lab tests by Q & M	3,000	4,000
Price (S\$)	70	60
Revenue (S\$m)	76.7	87.6
Post-tax profit (S\$m)	26.1	30.0
Non-controlling interests (NCI) (S\$m)*	12.8	14.7
PATMI (S\$m)	13.3	15.3

Source: DBS Estimates

**New estimates:**

	FY21F	FY22F	FY23F
No. of daily lab tests by Q & M	2,750	2,750	2,750
Price (S\$)	60	55	50
Revenue (S\$m)	60.2	55.2	50.2
Pre-tax profit (S\$m)	23.1	21.1	19.1
Post-tax profit (S\$m)	20.3	18.6	16.8
Non-controlling interests (NCI) (S\$m)*	9.1	6.1	5.5
PATMI (S\$m)	11.2	12.4	11.3

\*NCI decreased from 49% to 33% after acquisition of Acumen Diagnostics by Aoxin Q & M in Oct 2021

Source: DBS Estimates

Hence, we have new forecasts for Q & M (with no changes to core dental business projections). FY21F/FY22F revenue revised down by 7.3%/12.8% while net profit and EPS revised down by 5.3%/6.7%.

**Prev estimates:**

	FY21F	FY22F
Revenue (S\$m)	226.5	252.9
Net Profit (S\$m)	40.3	42.7
EPS (Scts)	4.2	4.4

Source: DBS Estimates

**New estimates:**

	FY21F	FY22F	FY23F
Revenue (S\$m)	210.1	220.5	235.2
Net Profit (S\$m)	38.2	39.9	43.8
EPS (Scts)	4.0	4.1	4.5

Source: DBS Estimates

We lower our target price to S\$0.80 based on sum-of-the-parts (SOTP) valuation, translating to 19x FY22F PE. We lowered the PE multiple for Acumen Diagnostics from 7x to 5x, as there is some uncertainty in this segment. We will wait for more concrete plans and execution before factoring the ART venture into our projections.

		FY22F	Per share (S\$)
Dental business	25x	26.8m	0.69
Aoxin Q & M	Market value	129.8m	0.04
Acumen Diagnostics	5x	12.4m	0.06
Total Equity Value		773.6m	
TP		0.80	

Source: DBS Estimates

## Q & M Dental Group

**Re-rating of share price in our view.** We see a positive correlation between Q & M's total revenue and share price. Revenue growth is driven by expansion in the core dental business segment and new revenue contribution from Acumen Diagnostics from 2H20. For 9M21, revenue from

dental and medical clinics contributed 77% of total revenue, while revenue from dental equipment & supplies distribution (includes revenue from Acumen Diagnostics) contributed 23% of total revenue. With a 20% revenue CAGR over FY20-23F, we think that the share price could re-rate, in our view.

### Positive correlation between Q & M's revenue and share price

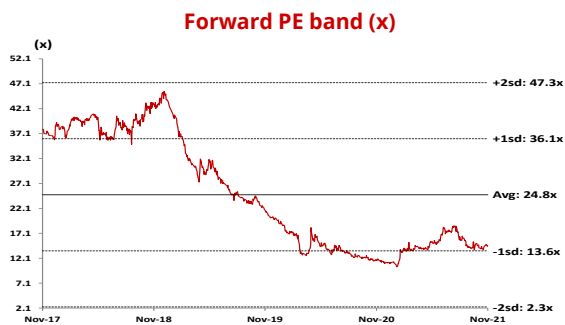


Source: Company, DBS Estimates

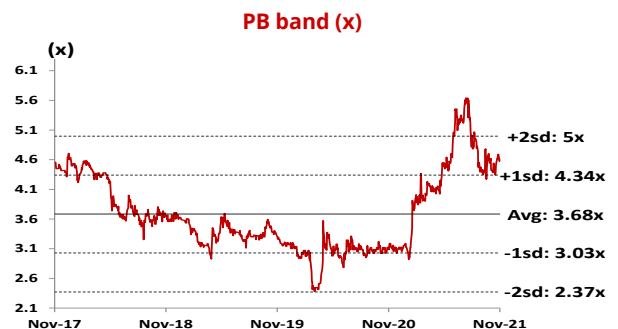
### Company Background

Q & M Dental Group (Singapore) has the largest network of private dental outlets in Singapore with an expanding presence in China and Malaysia.

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

**Key Assumptions**

FY Dec	2019A	2020A	2021F	2022F	2023F
No. of dental clinics and medical outlets in Singapore	85.0	88.0	103	118	133
No. of dental clinics and medical outlets in Malaysia	31.0	34.0	39.0	44.0	49.0
No. of dental clinics and medical outlets in China	1.00	1.00	1.00	1.00	1.00
No. of daily Covid-19 tests conducted by Q & M	0.0	210	2,750	2,750	2,750

**Segmental Breakdown**

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (\$\$m)</b>					
Primary Healthcare (Dental and Medical Clinics)	119	126	141	156	175
Dental Equipment and Supplies Distribution	8.81	9.02	9.23	9.46	9.68
Qinhuangdao Aidite	0.0	0.0	0.0	0.0	0.0
Covid-19 Test Kits and Laboratory Tests	0.0	2.22	60.2	55.2	50.2
<b>Total</b>	<b>128</b>	<b>138</b>	<b>210</b>	<b>220</b>	<b>235</b>

**Income Statement (\$\$m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	128	138	210	220	235
Cost of Goods Sold	(15.8)	(16.9)	(30.0)	(30.9)	(32.2)
<b>Gross Profit</b>	<b>112</b>	<b>121</b>	<b>180</b>	<b>190</b>	<b>203</b>
Other Opng (Exp)/Inc	(101)	(95.0)	(129)	(135)	(145)
<b>Operating Profit</b>	<b>11.3</b>	<b>25.7</b>	<b>51.6</b>	<b>54.1</b>	<b>57.9</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	4.16	0.16	0.50	0.50	0.50
Net Interest (Exp)/Inc	(4.4)	(3.8)	(2.7)	(2.7)	(2.7)
Exceptional Gain/(Loss)	9.02	0.25	4.55	0.25	0.25
<b>Pre-tax Profit</b>	<b>20.1</b>	<b>22.4</b>	<b>54.0</b>	<b>52.2</b>	<b>56.0</b>
Tax	(1.9)	(2.5)	(6.6)	(6.2)	(6.7)
Minority Interest	(0.2)	(0.1)	(9.1)	(6.1)	(5.5)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>18.0</b>	<b>19.7</b>	<b>38.2</b>	<b>39.9</b>	<b>43.8</b>
Net Profit before Except.	8.97	19.5	33.6	39.6	43.6
EBITDA	18.8	29.4	59.0	61.7	65.8
<b>Growth</b>					
Revenue Gth (%)	5.9	7.5	52.7	4.9	6.7
EBITDA Gth (%)	(7.5)	56.5	100.9	4.6	6.6
Opg Profit Gth (%)	(8.4)	127.4	100.3	5.0	7.0
Net Profit Gth (Pre-ex) (%)	(34.1)	116.9	72.9	17.9	9.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	87.7	87.7	85.7	86.0	86.3
Opg Profit Margin (%)	8.8	18.7	24.5	24.6	24.6
Net Profit Margin (%)	14.1	14.3	18.2	18.1	18.6
ROAE (%)	15.5	16.2	31.2	32.0	34.3
ROA (%)	6.9	6.8	13.3	13.2	14.0
ROCE (%)	4.4	8.9	18.0	18.3	18.9
Div Payout Ratio (%)	35.8	112.8	92.8	96.9	88.2
Net Interest Cover (x)	2.6	6.8	19.4	20.3	21.8

Source: Company, DBS Bank

**Balance Sheet (\$\$m)**

<b>FY Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Net Fixed Assets	26.1	28.9	28.0	26.9	25.6
Invts in Associates & JVs	42.0	43.7	31.0	31.0	31.0
Other LT Assets	113	115	115	115	115
Cash & ST Invts	27.3	48.8	52.5	59.0	68.2
Inventory	7.04	16.1	28.6	29.4	30.7
Debtors	87.3	18.2	40.3	42.3	45.1
Other Current Assets	3.41	3.23	3.23	3.23	3.23
<b>Total Assets</b>	<b>306</b>	<b>274</b>	<b>299</b>	<b>307</b>	<b>319</b>
ST Debt	32.6	1.94	1.94	1.94	1.94
Creditor	27.1	16.5	29.4	30.2	31.6
Other Current Liab	11.2	11.8	11.8	11.8	11.8
LT Debt	69.8	75.5	75.5	75.5	75.5
Other LT Liabilities	41.9	44.2	44.2	44.2	44.2
Shareholder's Equity	122	121	124	125	130
Minority Interests	1.16	2.85	12.0	18.1	23.7
<b>Total Cap. &amp; Liab.</b>	<b>306</b>	<b>274</b>	<b>299</b>	<b>307</b>	<b>319</b>
Non-Cash Wkg. Capital	59.5	9.20	31.0	32.9	35.7
Net Cash/(Debt)	(75.2)	(28.6)	(24.9)	(18.4)	(9.2)
Debtors Turn (avg days)	148.3	139.9	50.8	68.4	67.8
Creditors Turn (avg days)	601.7	592.5	362.6	456.9	452.5
Inventory Turn (avg days)	204.7	314.1	352.8	444.5	440.2
Asset Turnover (x)	0.5	0.5	0.7	0.7	0.8
Current Ratio (x)	1.8	2.9	2.9	3.0	3.3
Quick Ratio (x)	1.6	2.2	2.2	2.3	2.5
Net Debt/Equity (X)	0.6	0.2	0.2	0.1	0.1
Net Debt/Equity ex MI (X)	0.6	0.2	0.2	0.1	0.1
Capex to Debt (%)	6.3	7.9	7.8	7.8	7.8
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Bank

## Cash Flow Statement (\$\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	20.1	22.4	54.0	52.2	56.0
Dep. & Amort.	3.28	3.46	6.91	7.06	7.32
Tax Paid	(0.7)	(1.2)	(6.6)	(6.2)	(6.7)
Assoc. & JV Inc/(loss)	(4.2)	(0.2)	(0.5)	(0.5)	(0.5)
Chg in Wkg.Cap.	(25.6)	18.9	(21.8)	(2.0)	(2.8)
Other Operating CF	35.0	(17.6)	(4.3)	0.0	0.0
<b>Net Operating CF</b>	<b>28.0</b>	<b>25.8</b>	<b>27.7</b>	<b>50.6</b>	<b>53.4</b>
Capital Exp.(net)	(6.5)	(6.1)	(6.0)	(6.0)	(6.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(2.5)	47.0	17.0	0.0	0.0
Div from Assoc & JV	2.22	1.28	0.50	0.50	0.50
Other Investing CF	(2.5)	(2.4)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(9.3)</b>	<b>39.8</b>	<b>11.5</b>	<b>(5.5)</b>	<b>(5.5)</b>
Div Paid	(6.4)	(22.2)	(35.4)	(38.6)	(38.6)
Chg in Gross Debt	(0.2)	(9.4)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(9.8)	(12.5)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(16.3)</b>	<b>(44.1)</b>	<b>(35.4)</b>	<b>(38.6)</b>	<b>(38.6)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	2.33	21.5	3.75	6.46	9.24
Opg CFPS (S cts)	5.54	0.72	5.12	5.44	5.82
Free CFPS (S cts)	2.82	5.05	5.44	6.11	7.06

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Apr 21	0.52	0.68	BUY
2:	29 Apr 21	0.52	0.68	BUY
3:	20 May 21	0.58	0.70	BUY
4:	27 Jul 21	0.66	0.83	BUY
5:	02 Sep 21	0.64	0.84	BUY

Source: DBS Bank

Analyst: Paul YONG, CFA

Singapore Research Team

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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